RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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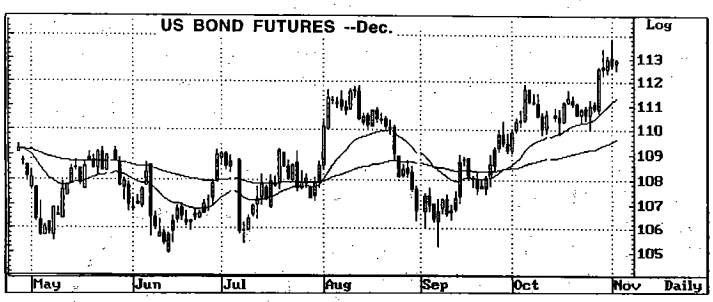
Nov. 6, 1996 **LETTER 1212**

THE PICTURE: The significant feature of the current market action is breadth, which has been sluggish to weak -- even on days when the Dow was substantially higher. This is characteristic of a market that is "tired," even "toppy." In the meantime, the Dow itself has been fluctuating above and below the 6000 level. As for the Transports, they've been floating about in an area 200 points below their May high.

Meanwhile, the bonds are looking considerably better with long yields remaining well below the critical 7% level. This chart shows the bond story, and it's a bullish one. On October 29 the December bond futures broke out above their August 9 high of 111-22, rising to a seven-month high. Higher bond prices with accompanying lower rates are almost always a plus for the stock market. Thus, the bonds are one of the staunchest supporters of this sky-high stock market.



A higher Dow, lagging Transports, rising bonds -- what does it all mean? If I had to guess, I'd say that the markets (stocks and bonds) are acting as though they see a slowdown or a recession in 1997. My second guess: Wall Street is protecting itself against a Democratic sweep. A Democratic sweep of the presidency and the Congress is not something that the stock market would be happy about.

Conclusion: This market is a very tough call. The fact is that for weeks the market has been thrashing about, with the major averages in an upward bias. To me, the feature of this market is that **no real momentum** has developed on either the upside or the downside. However, under the guise of a rising Dow, the breadth of the market has gradually been deteriorating.

Prediction vs. Condition: Confusion exists in the minds of most investors regarding the concepts of market determinism vs. market condition. "Market determinism" implies that there are systems which allow the student to *predict* what the market will do in terms of patterns and even in terms of duration of moves. Foremost in the deterministic school are the cycle studies and the Elliott Wave studies.

As opposed to the above, we have the "market condition" studies. Market condition seeks to tell us what the market may do under certain circumstances. For example, if there is heavy specialist shorting, the implication is that the market is vulnerable to decline. Or if investor sentiment turns extremely bearish, the implication is that the market should be preparing to rally.

Personally, I tend to put most credence on my studies of *market action* -- or what the market is actually doing on a day by day, week by week basis.

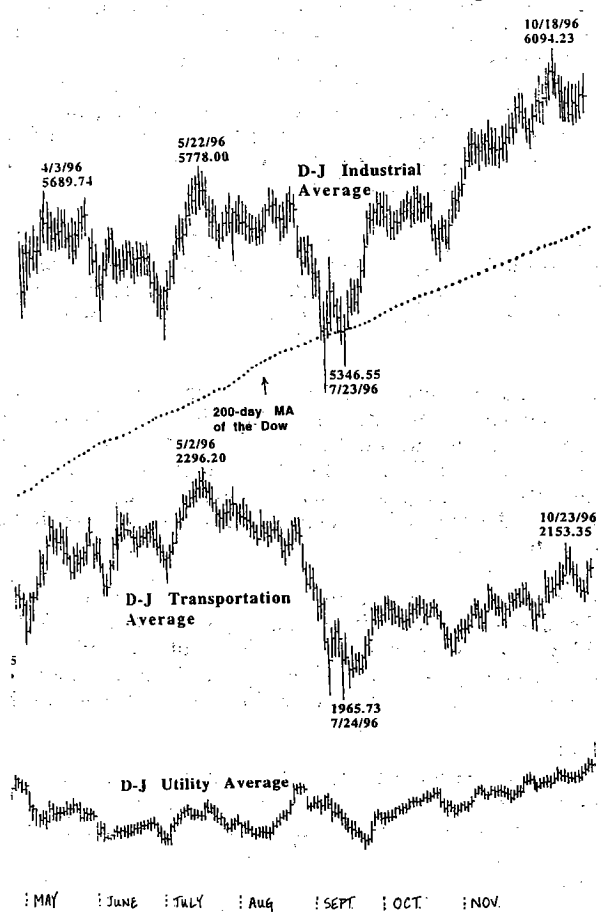
Oct. 25 DJIA 6007.02; PTI 4655; A-D Ratio +1.11
Nov. 1 DJIA 6021.93; PTI 4658; A-D Ratio +1.07
Dow Yield: 2.15%; Dow Price/Earnings: 17.5
Dow 144-day MA: 5822; Dow 34-day MA: 5993
Dow Times Book Value: 4.50; PTI 89-day MA: 4606
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 392.76; Gold-PTI: 328

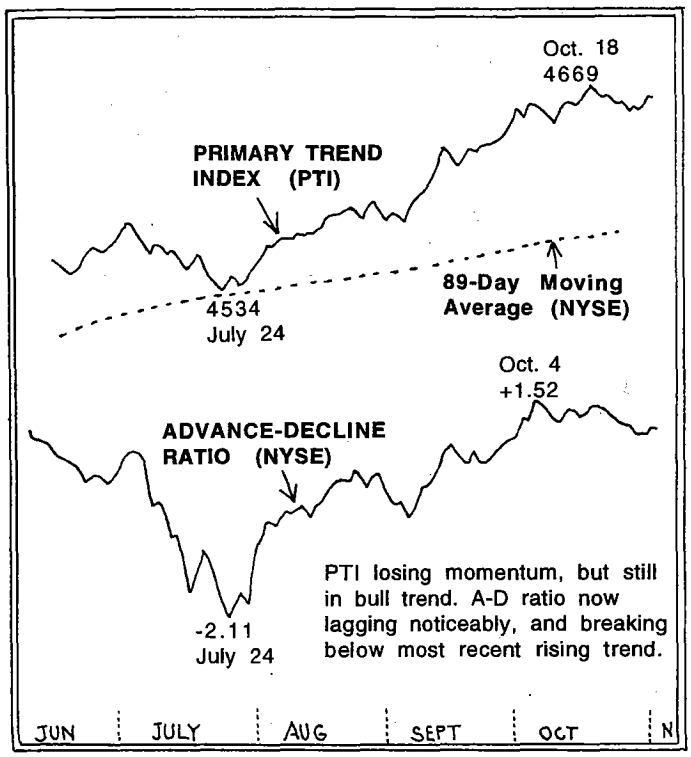
Aside from my study of the Averages and the advance-decline ratio, I depend heavily on the action of my **Primary Trend Index** to identify the underlying trend of the market. As this is written, the PTI is just under its October 18 record high of **4669.** Where the PTI goes from here will be critical in my analysis of the market trend.

Dow Theory: As this is written, Dow Theorists have some difficult decisions to make. So let's talk Dow Theory. From a Dow Theory standpoint the single most important investment consideration is always -- **values.** Is the market a great value, is it a good value, or is it overvalued? The answer: there's no question in my mind but that today's market is *severely overvalued.*

Of course, values do not and cannot pin-point market turns. They do, however, tell us whether the market is on firm ground, whether it is on slippery ground, or whether we are playing craps with fate. On a Dow Theory value-basis, I would say that investors are now playing craps with fate.

As I see it, when stock yields have shrunk to a minuscule 2.2% (as they have now) the buyer of stocks must be thinking as follows:





(1) my stocks will simply continue to move higher, or (2) at a time of my own choosing, I'll be able to sell my stocks to "a greater fool" for a handsome profit.

Aside from the question of values, the Dow Theorist must always be aware of what **psychological phase** the market is in (we're talking now only about bull markets). So we ask the questions -- is market sentiment severely depressed and are stock yields almost irresistibly high? This condition identifies the first phase of a bull market. Or is the stock market advancing while stocks continue to be attractive values? This identifies the second and usually longest phase of a bull market. Or are values thin, is volume running high, is the public rushing into the market "with both feet," and is there intense and widespread interest in Wall Street? All of these identify the third phase of a bull market.

Upon determining which phase the market is in, the Dow Theorist next turns to the actual action of the market and specifically to the action of the Averages. In the third phase of a bull market (where we are now), the market correction and its aftermath becomes critical.

Why critical? Because once a major decline occurs, the rally that follows contains a vital message. If the rally takes BOTH Averages to new highs, the bull market will receive the "all clear" signal. However, if the rally fails to take both the Industrials and the Transports to new highs -- and the two Averages then turn down and violate their preceding decline lows, this constitutes the fateful primary bear signal.

Current Situation: The Transportation Average recorded its bull market high of **2296.20** five months ago -- on May 2. Following the May high, Transports dropped 331 points to a July 24 low of 1965.73 (see page 1 chart). Although the Transports have rallied since then, they have never recovered to anywhere near their May 2 high.

The Industrial Average has recorded 31 new record highs so far in 1996, and through it all the *Transports have stubbornly refused to confirm.* This constitutes a major negative in the market picture. The non-confirmation by the Transports taken together with historically low stock yields presents us with a dicey situation. And when we add that the Dow has not undergone as much as a 10% correction since 1990, we have a market that is not only dangerous but one that is defying all the odds.

As for sentiment, a curious situation now exists in that many of the nervous or bearish commentators are warning that "after the election" or more probably "sometime in 1997" the market will be subject to "a correction." I remember that Robert Rhea, the great Dow Theorist of the 1930s, commented that "when the experts are putting the next decline six months to a year away, it's time to be very careful." To me, that pretty much describes the situation and the sentiment of today.

Primary Trend: To me, the single most fascinating concept in the stock market is that of the **power of the primary trend.** Let's take the current situation as an example. Obviously there's no way of knowing at this time, but let's just say that the primary trend of the market is currently in the process of turning down.

What would this mean? It would mean that we've seen the highs in one or more probably both Averages (i.e., the Dow and the Transports). It would mean that rallies would tend to top out BELOW preceding rallies, and declines would tend to carry BELOW previous decline lows. It would also mean that holding a portfolio of stocks was a losing proposition. When the primary trend of the market turns down, I liken it to "the water running out of the bathtub." As the water line declines, everything, the soap, the toys, the wash rag, all will be heading inexorably down -- towards the drain.

Interesting: Subscribers know that I believe that the "even numbers" in the various averages have significance. Thus it's curious and quite extraordinary that the Dow is now a few percentage points above the 6000 level, the Transports are not far from 2000, the S&P is sitting just above 700, Japan's Nikkei is slightly over 20,000, and Britain's "Footsie" is perched right on 4000.

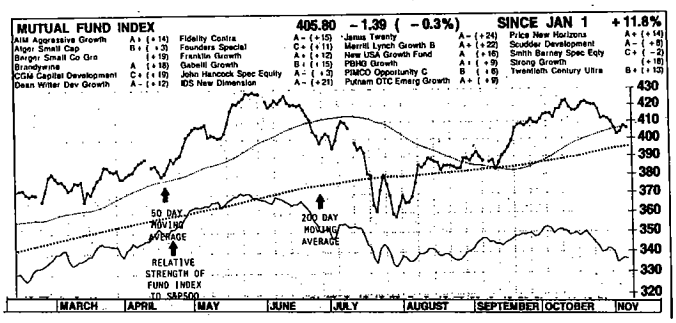
INVESTMENT POSITION: Breadth is stalling, market momentum (both upside and downside) has ebbed dramatically, but bonds have risen to a seven-month high. Considering the whole picture, I'm keeping the question mark in the box, but I'm accompanying the question mark with a small bull (that's because, until proved otherwise, the trend still belongs to the bulls).

However, to buy stocks here requires a large portion of optimism. If you own stocks, you don't have enough evidence yet to push you to the sell side. But the market has turned "spotty," and many individual stocks have slid off their highs while a smattering of stocks have fallen apart (usually due to disappointing earnings).

The strong dollar (dollar at a three-and-a-half year high against the yen) will soon impact on US exports, and we should remember that the big global Dow stocks tend to be big exporters.

Conclusion: Caution is the operative word at this juncture. Actually, the long-bond might well be a good buy here. If a recession creeps in next year, the Fed will send rates south in a hurry -- and the bonds will surge. The last thing on earth that Fed Chairman Greenspan wants at this point (with consumers up to their neck in debt) is a recession. Thus, he'll fight recession with all the resources at the Fed's command.

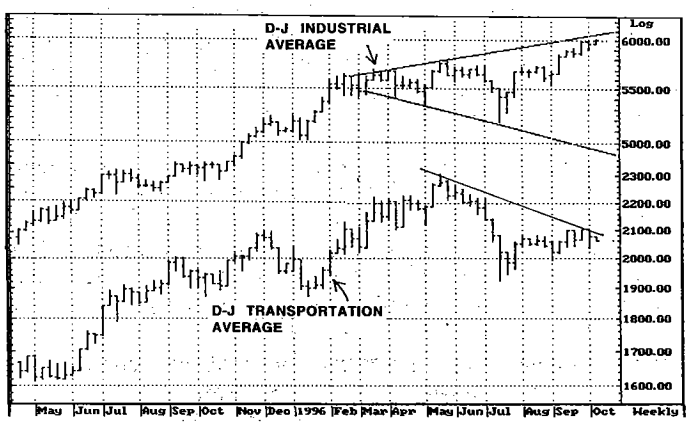
CHARTS: The first chart on page 3 (courtesy of *Investor's Business Daily*) traces the daily action of 20 leading equity mutual funds. Now I feel this is very significant -- note that the index in October failed by a wide margin to advance to a new high -- even though the Dow, the NYSE Index and the S&P 500 all rose to new highs. This tells us that the **mutual funds are now having a difficult time,** and that they are failing to keep up with the leading stock averages.



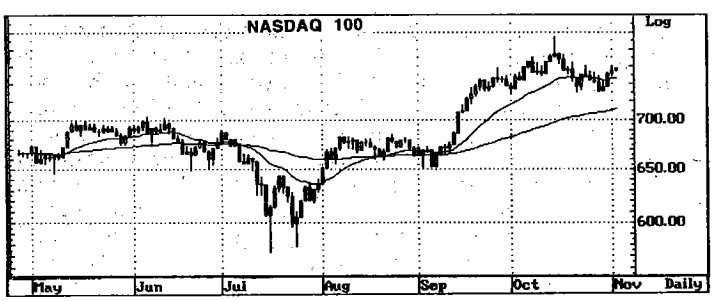
Note that the relative strength line for the Mutual Fund Index topped out in mid-May, and it has been in a downtrend ever since. This action suggests that the Funds will probably remain weaker than the market on a trend basis for quite a while. Considering that millions of Americans have their life savings in mutual funds, this is not a happy omen. As this written, the 20 funds are up an average of only 10.2% for 1996.

I continue to be fascinated by the weekly patterns in the Dow and the Transports. I've shown this chart in recent Letters, but I want to keep this picture in front of my subscribers. Here we see the Dow in a huge "broadening pattern," the five-point reversal formation that implies a market that is "out-of-control," swinging wildly, first one way, then the other.

Simultaneously, we have a major non-confirmation in the Transports, a non-confirmation that has now been in force for five months. The patterns in the two averages, taken together, constitute a big question mark for the market, which is one of the reasons I've kept a question mark in the page 2 "Investment Position" box.

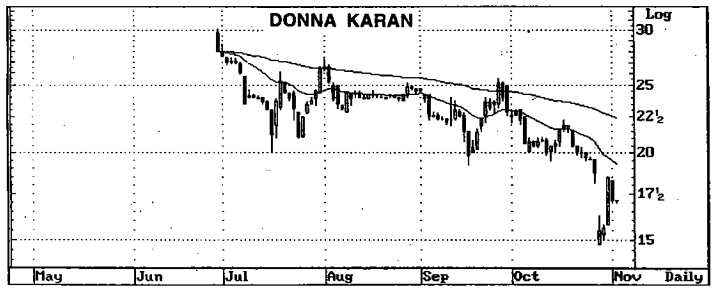


The third chart shows the daily action in the NASDAQ 100, one hundred of the largest capitalization stocks in the NASDAQ. Here we see a clear "head-and-shoulders" top pattern with the support at 736. On October 29 that support was violated, and I would say that this is a bearish omen for the NASDAQ and for stocks in general. The NASDAQ over recent years has assumed a much greater importance than formerly. This index doesn't receive nearly as much publicity as the Dow, which is one of the reasons I watch it carefully.

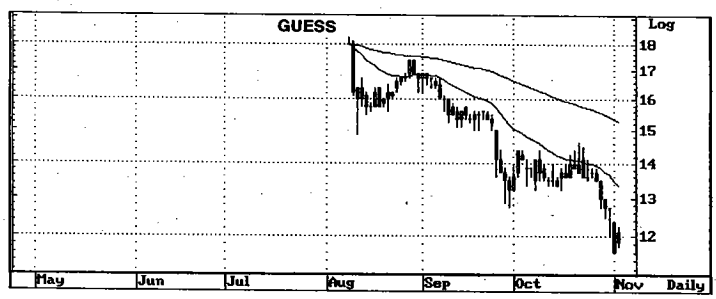


With breadth lagging or running very evenly (i.e., as many stocks down as up), we see many of the recent favorite issues (particularly IPOs) falling apart. A few examples are shown below:

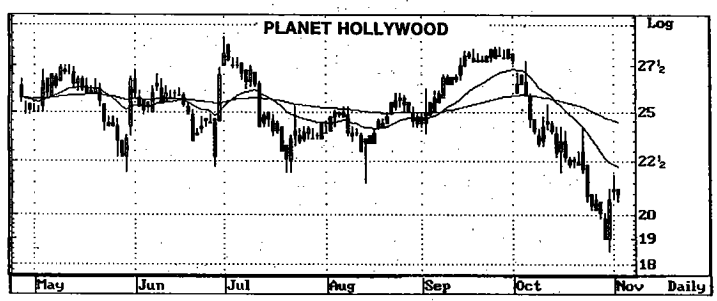
You remember how buyers waited in line to grab some of that fabulous Donna Karan stock. The stock hit 30 on the day it was issued, and eager buyers gobbled it up. That first day was the high day. Last week DK plunged (on disappointing earnings) to below 15.



Then there's Guess stock which came out at 18. But the word was that Guess wasn't doing that well, and the stock headed south. Gosh, Sharon Stone was scheduled to marry the CEO of Guess, and he even gave her a $370,000 diamond ring. I recently read in Liz Smith's column that Sharon had called the prospective marriage off. Maybe Sharon found out that Guess products are fading at the stores. At any rate, by last week GES was down to 13. We can only GES what lies ahead for this much-touted company.



Finally, there's Planet Hollywood, which I reviewed in a previous Letter as being ridiculously overvalued. Of course, being overpriced was fine with part-owners Bruce Willis, Demi, Arnold and Sly. But alas, the cruel market is having second thoughts about PHII. I'm predicting that Wall Street will have second thoughts about the whole theme-restaurant nonsense, but it may take a little more time.



NOTES & QUOTES: Gerry Weiss, editor of La Jolla's *Investment Quality Trends,* notes the following, which frankly surprised me: "After steadily rising dividends, during which investors purchased utilities primarily for income, the composite dividend for the Dow Jones Utility Average has declined every year since 1987. A nine-year-long dividend reduction amounting to 21% (from $15.94 to $12.60) is both notable and significant." **Russell comment:** I'll say it is significant. Gerry thinks (hopes) that the new era of deregulation will help the utilities in the future.

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Scandalous: The Center for Responsible Politics estimates that the cost of the 1996 presidential campaign is running over $800

million, three times the amount spent on the 1992 campaigns -- with another $800 million spent on the Senate and House races. Where does all this money go? It goes to stockholders and executives of the broadcasting industry, and to a lesser extent to newspapers and advertising agencies and consultants. This massive spending for political campaigns is almost uniquely a US phenomenon. Only in the US do national elections massively enrich private and corporate interests through the transfer of public money to private interests. In other nations, broadcasters are expected to provide campaign time equitably, as a public service.

Actually, money spent to solicit electoral or parliamentary favor was once considered immoral or even criminal. In 1695 Britain's House of Commons ruled that *"the offer of money, or other advantages, to any Member of Parliament for the promoting of any matter whatsoever to be transacted by Parliament, is a high crime and misdemeanor and tends to be the subversion of the English Constitution."* But spending hundreds of millions of dollars on elections is the US political way of life. To me, all this spending is a corrupting influence: it should be outlawed along with PACs. It's one of the reasons why US voters have such a low opinion of politicians and the US political process.

* *

I don't usually agree with super-liberal economist John Kenneth Galbraith, but he and a small group out of Cambridge note that 75 years ago the US economy rested on agriculture, 50 years ago it was manufacturing, but today the US economy rests on **entertainment.** The group states that agriculture and manufacturing are closely connected with the fundamentals of human life, while entertainment tends to be escape from reality. Thus if you want to understand what's going on in the US today, you have to understand that this nation no longer functions on reality, rather it functions on images of reality generated by the US entertainment business. The entertainment business is now the most influential force in American life. **Russell comment:** I've felt all along that the US is becoming "Disney-fied." Furthermore, I consider the two Clintons a product of the entertainment industry. The newspapers and TV have never zeroed in on their "trespasses." Last weekend the influential *NY Times* endorsed Clinton for president (even while urging him to try to be more honest and forthright). Twenty years ago the scandal-ridden Clinton would never be able to run for a second term in the White House.

* *

A blockbuster letter appeared on the op-ed page of the October 25 *WSJ*. I include a few paragraphs from this article:

> By JEROME M. ZEIFMAN
>
> Sadly, as a life-long Democrat and chief counsel of the House Judiciary Committee at the time of the Nixon impeachment inquiry, I cannot in good conscience vote to re-elect Bill Clinton. Having reached this decision, I am proud to be among those Democrats who have chosen principle over party. Defeating Mr. Clinton would help revive the traditional moral values of the Democratic Party—as they existed under Presidents Roosevelt, Truman, Kennedy, Johnson and Carter.
>
> Having long championed traditional Democratic causes, I simply cannot accept Mr. Clinton's shameless election-year surge to the right as his chosen means of winning a second term. And like most if not all traditional Democrats, I have grave reservations about the Clintons' morality and ethics. In my view there is now probable cause to consider our president and first lady as felons, who are likely to be indicted after the Nov. 5 election.

* *

While the dollar is strong, the **Mexican peso** (despite the huge $8 billion US bailout) has turned weak. In the last month the peso has lost 5% of its value, dropping to 7.92 to the dollar. The reason is that investors are losing faith in the Mexican government's ability to manage the economy. If one were to pinpoint a single problem, it is the Oct. 13 announcement that President Zedillo, giving in to pressure from oil workers, was backing off from his plan to fully privatize the huge Mexican petrochemical industry.

* *

It seems increasingly clear that the American public feels more comfortable with a **"split ticket."** In other words, they don't want a president and a Congress of the same party. Why? Because they see government as a source of their troubles, and therefore, the less government they have to put up with, the better. Thus Clinton as president and a Republican Senate and House would suit Americans just fine. Ironically, GOP control of Congress would probably suit Clinton as well. A Republican Congress would allow Clinton to blame Congress for any problems he had getting bills through -- that is, assuming Clinton has any agenda at all or any bills he really wants to pass. In the meantime, voters are turned off by the whole situation -- a self-serving, sleazy Democratic president whom nobody respects running against a dour, inarticulate Republican candidate whom nobody can listen to.

* *

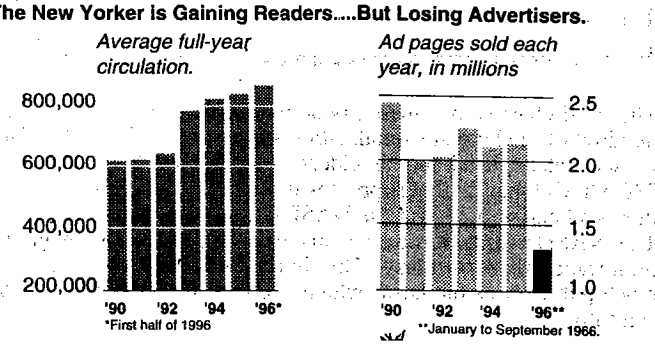
Atlantic City has decided to grow, big time. No less than 10 corporations are slated to expand in Atlantic City. Hilton Hotels will build a $100 million "New Wild West Casino." Trump will expand the Trump Taj Mahal by 800 rooms. MGM Grand will build a new 2,500 room casino hotel at a cost of $700 million. Circus Circus will build a 2,000 room casino and hotel at a cost of $500 million. All together, the gaming crowd intends to spend almost $4 billion on new projects.

* *

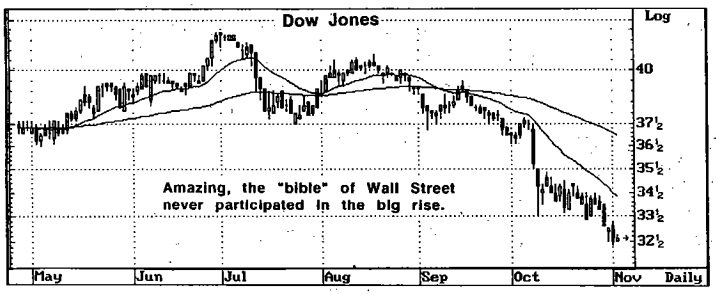
Confession -- I love magazines and newspapers. As for books, my opinion is that most non-fiction books consist of a few ideas that could be put forth in five or 10 paragraphs but instead are blown up into a book. Magazines and newspapers are obviously more up-to-date than books, and magazine articles are more condensed and contain less fluff. Following are two unusual cases, one a magazine and the other a newspaper.

The ultra-liberal *New Yorker* magazine has been attracting new subscribers by the carload. But advertisers have been leaving just as quickly. Why? The talk is that advertisers are leaving because the magazine does not aim at any specific group of spenders. The Russell opinion is that the *New Yorker* is so mindlessly liberal that many corporations are simply avoiding it. Ironically, most of the *New Yorker's* circulation is outside of NYC.

The New Yorker is Gaining Readers....But Losing Advertisers.



The other unusual case is Dow Jones. This stock has done little or nothing during the whole market rise of the last few years. You would think that "the bible" of Wall Street should have boomed with the stock boom, but that isn't the case. Why? Dow Jones' Telerate, for one thing, went nowhere. But also Dow Jones stock is controlled by a wealthy older coterie who are more interested in quality than big profits or running up the stock. Thus, there is no big pressure on the Dow Jones management to become super-profitable. Instead they've opted for super-quality, and we can all be thankful for that (the *Journal*, to my mind, consistently offers the best, the most thoughtful and most exciting op-ed page of any newspaper).



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The *NY Times* book section reviews Peter Peterson's new book, "Will America Grow Old Before It Grows UP?" This book talks about the unspeakable -- the growing monster of entitlements which threaten to change the face of the nation. The book documents the fact that within a decade a wave of oldsters will be flooding America, and they'll want the benefits they've paid for and been promised. But alas, the money's been spent, and the ghost of Ponzi has taken over. The last paragraph of the *NY Times'* review quotes Herbert Stein's famous statement, "Unsustainable trends tend NOT to be sustained." It continues: "Something is bound to give -- but what? Will retired boomers -- who have even more political clout than today's smallish population of retired voters -- be willing to accept a sharply reduced standard of living? That is hard to imagine. Will younger voters be willing to accept increases in tax rates to support boomers in the style they have been promised? That is equally hard to imagine. Or will the Government try to square the circle by simply printing the money it needs, creating runaway inflation? Surely that is inconceivable. Yet one or more of these unthinkable things will happen, because something must." **Russell comment:** Is this the basis of the next super-bear market? And don't forget that the market moves far ahead of the event.

* *

The Pacific Stock Exchange has outgrown its ancient San Francisco digs, and it could be looking south -- to San Diego, to be specific. San Diego has put together a most enticing package -- SD will give up its community concourse and change the name to Exchange Plaza. SD would offer lease-revenue bonds to finance the multi-million dollar remodel of the civic concourse. SD can offer much lower costs than San Francisco possibly can. The Exchange now pays $25 per square foot, while SD can offer $15 per square foot for a fully remodeled facility. SD would require only $2,000 in annual business taxes whereas the Exchange now pays $200,000 (meanwhile, SF is trying to raise taxes on the Exchange). San Diego has the lowest business taxes of any large city in the US. And, of course, San Diego has the best weather in the world. Will the Exchange leave sophisticated San Fran for "surfer's paradise?" We'll see.

* *

I spent last Sunday at the University of California at Berkeley ("Cal"), visiting my freshman son, Ryan. I must say I was impressed by the University and its fabulous facilities. Example: I looked over the Life Science building, and checked out its huge library (this is not even the main library). One huge room was lined with hundreds of magazines -- they must subscribe to every bio, science and medical magazine in the world. I lost count, but I really was amazed . . . If you want to know what the '60s looked like, take a walk down Telegraph Avenue a few blocks from the Berkeley campus. Hundreds of New Age and Hippie vendors line the streets -- tattoos, long hair by the carloads, nose piercing, ear piercing, belly piercing, god knows what piercing, tie-dyes, artsy objects for sale, chains and incense (plus other less legal odors) abound. Food is very cheap and excellent (great bread) -- it's offered by countless restaurants ranging from veggie burgers, Indian, Chinese, health food, Vietnamese, Thai, and the ubiquitous pizzas (one Chinese restaurant advertises that every course is $1) . . . Son Ryan lives in a co-ed dormitory (girls and boys on the same floor) that is six stories high. His dorm houses mostly athletes (Ryan plays water polo, which is a big sport in the West). What surprised me was that each floor has a large bathroom (toilets, showers, sinks, etc.) and even the bathrooms are co-ed. I asked Ryan, "Does anyone get embarrassed? I mean girls taking showers while guys are sitting on the john?" Answer: "Nah, you get used to it the first day or so." Cal has a large minority student population, and believe me these kids come to work. I visited a few of the study rooms (these rooms are lined with both PCs and Macs), and I'd say two-thirds of the students bending over those computers are Asians (remember, this was on a Sunday). Interestingly, for this year's freshman class Cal had 10,000 applicants with 4.0 averages or better. All of Ryan's friends appeared far above average in intelligence. Student athletes (Ryan is one) get special advantages since they must put so much time into practice or games. Thus, Ryan gets to pick his classes before the other students, he gets outstanding medical treatment (massage any time he wants!), tutoring if he wants, etc. Berkeley's attitude (I think this is general in the top universities now) is -- "if you're good enough to be accepted, we don't want you to flunk out, and we will do all in our power to keep you afloat." This is in contrast to the old attitude which ran, "Look to your right and to your left, half of you won't be here by graduation time".

* *

Big & Little: Chrysler would love to move into the Chinese market. Thus its new concept car for China looks like a VW beetle, has a V-2 engine and should sell for $5-6,000. It will be made of molded, recycled plastic and termed the CCV ("Chrysler Concept Vehicle") . . . Meanwhile, Boeing and its European competitors are planning a giant 1,000-passenger plane, an aircraft calculated to change the face of air travel.

* *

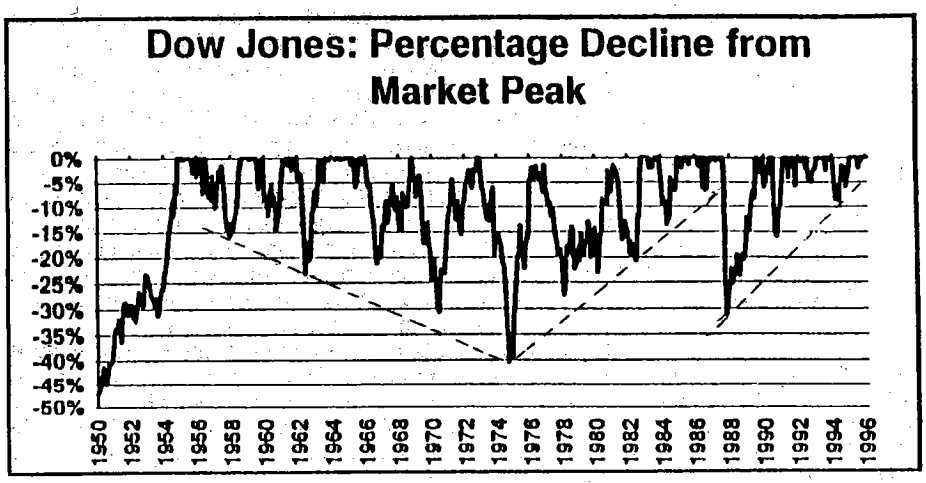
I've received many Letters from subscribers regarding **chelation.** The question: if chelation is an aid in avoiding plaque build-up and heart attacks and may even be a way of avoiding by-pass, how is it that physicians not only don't recommend it, they even denounce it? My answer: a great many hospitals depend on cardiac operations to survive. Heart operation costs run into the billions of dollars every year. I don't say the doctors are dishonest. But they tend to repeat hearsay, as well as follow the AMA line. Furthermore, chelation costs $85 a session while a by-pass operation can cost up to $70,000, so the incentive to stay with the scalpel is huge.

Question: can the medical profession be "bought" or shall we say "compromised?" You decide. This is from last week's *Parade* magazine:"

> **Three decades ago, the tobacco industry was up in arms over the Surgeon General's 1964 report branding smoking as a health hazard, while the doctors of America lived in fear of legislation enacting national health insurance. It was hardly noticed at the time, but Congressmen from the Southern tobacco states and the American Medical Association struck a deal. The AMA issued a report directly contradicting the Surgeon General, and the tobacco interests threw their votes against Medicare. The AMA insists it had embraced the Surgeon General's warning about smoking by the mid-'60s, but some reports argue that it took a decade or more.**

* *

Faye and I attended billionaire Marvin Davis' giant Hollywood party, a charity affair for juvenile diabetes. I went to high school with big Marvin, and I hadn't seen Marvie since 1942. Marvin has just bid to take over Carter Wallace for $875 million, putting up $250 million of his own money. Why Marvin (who is my age) is still trying to increase his bank account is beyond me (Marvin, c'mon, take it easy). The party was huge (1200 people), with half of Hollywood attending. Outstanding were Jay Leno who MC'd the affair, and John Travolta who introduced the still-terrific Bee Gees. Whitney Houston, who was slated to sing, was suffering with a sore throat and could only talk. Rod Stewart was outstanding. In all, quite a night.



A FASCINATING CHART: Ah, I have some extra room, and this is a study that I've wanted to show subscribers. Here's a fascinating chart published by *Fuller Money,* 7 Swallow St., London WIR 7HD, England. I dunno, maybe you have to be out of the country to see or do something original regarding Wall Street.

When I first saw this chart, I was struck by something, but I couldn't decide exactly what it was. Then I drew in these three dotted trendlines.

The chart shows just what it says -- the percentage decline by the Dow from each successive market peak.

Note that starting during the mid-1950s, each Dow decline was *more severe than the preceding.* The crushing climax and reversal came in 1974 -- the Dow fell 45% between January 1973 and December 1974.

From there the trendline turns up as each decline in the Dow was *successively less in percentages than the preceding.* This happy trend lasted for 13 years -- until 1987. In 1987 the Dow fell 36% in the space of a few months.

From the October 1987 low of 1738.74, the market turned up, and again the trendline that I drew heads higher. Amazingly, since 1990 there has not been a Dow decline (on a closing basis) of as much as 10%.

To me, this presents a most significant picture, particularly as we move into the year 1997. I wrote in the last Letter that based on the Decennial Pattern, the "7" years of each decade tend to be costly years. In view of the patterns on this chart, the stock market could be set up for a surprise next year if not sooner.

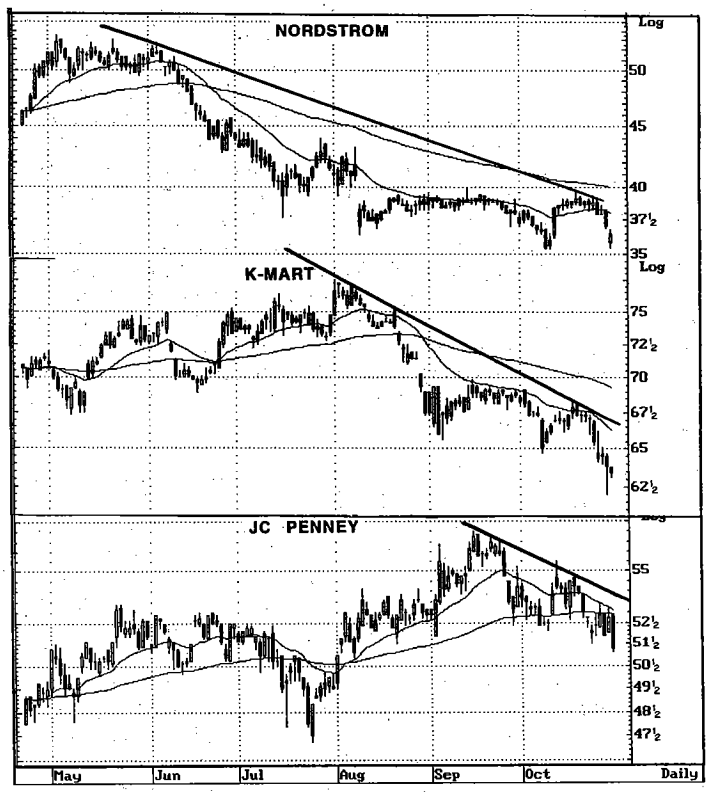
So for the winner of the coming presidential election, here's my comment -- congratulations and good luck. As to luck, you're going to need it.

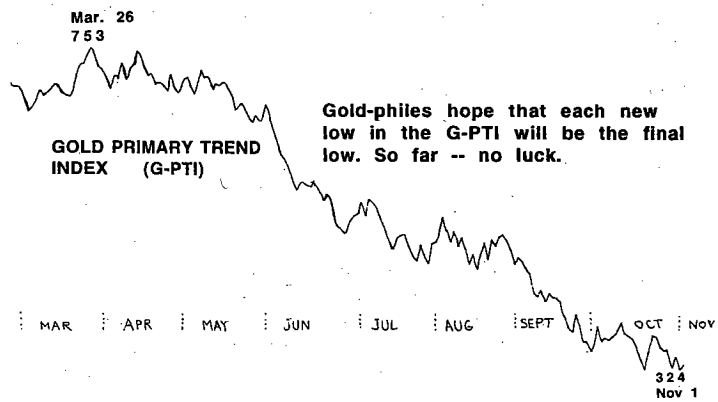
LATE NOTES & THOUGHTS: "Implied volatility" (IV) in the S&P futures is now very high. IV is the option-sellers assessment of how much market movement (either up or down, it makes no difference) may be coming up. When option-sellers (who tend to be very sophisticated) are worried about an impending big move either up or down, they price options higher, and IV goes up. It's now up -- very high in the S&Ps.

So it's obvious that option-sellers are now protecting themselves against a big move which they believe will be coming up sometime AFTER the election. My guess is that the next big move will be down. One thought -- two-thirds of the US economy is represented by **consumer buying.** I just ran charts of the big retail stocks, and most appear to be in topping patterns. At any rate, I include a few representative charts. You be the judge. It would seem that these stocks are preparing for a major pull-back in consumer spending (actually, that may be happening already).

GOLD: I'd like to say something bullish here, but the best I can come up with is (1) "gold has been sliding all year and has got to be awfully oversold," and (2) "gold, the metal, can't go bankrupt and will be money long after the dollar is an antiquity framed on a museum wall."

But to bring it up to date, gold continues weak with the December gold futures (on Oct. 31) breaking below the long-respected 380 level. The best acting gold equities are the oft-recommended Franco Nevada and Euro Nevada (both traded on the Toronto exchange and quoted in Canadian dollars -- quotes daily in the *WSJ*). The world's most profitable gold mine is now Barrick gold (ABX), and if I had to buy three gold shares, the three mentioned above would be my choices.





Final Notes: The election's tomorrow, and the market's been nervous. Nervous why? The market doesn't like uncertainty, and there's uncertainty about Congress. Voters don't want Dole and they don't trust the Clintons. So best bet -- Clinton wins, and Republicans retain control of Congress (or at least they retain control of the Senate). Thus, Americans vote for a stalemate. The less Washington is able to do, the safer most Americans feel. And who can blame them? After the election, Clinton may spend as much time in court as in the White House. I look for post-election fireworks.